



State Investment Commission

Monthly Meeting Minutes

Wednesday, May 23, 2012

9:00 a.m.

Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:05 a.m., Wednesday, May 23, 2012 in Room 135, State House.

I. Roll Call of Members

The following members were present: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Ms. Paula McNamara, Mr. Andrew Reilly and General Treasurer Gina Raimondo. Mr. Giudici arrived at 10:16 a.m.

Also in attendance: Ms. Maggie Littlefield Sahlman and Mr. David McKenna, of Advent International; Mr. Bernie Buonanno, Mr. Habib Gorgi and Mr. Scott Hillinski, of Nautic Partners; Mr. Allan Emkin and Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Mr. Steve Nesbitt and Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Ms. Lisa Tyrell of State Street Corporation; Kenneth Goodreau, chief investment officer and members of the Treasurer's staff and the Office of the Auditor General.

Treasurer Raimondo called the meeting to order at 9:05 a.m.

II. Approval of Minutes

On a motion by Mr. Reilly and seconded by Mr. Fay, it was unanimously

VOTED: To approve the draft of the minutes of the April 25, 2012 meeting of the State Investment Commission. Mr. Giudici was not present for the vote.

III. Advent International Presentation

Mr. McKenna introduced Advent, and explained their focus is on control-oriented business transformation opportunities in select sectors that produce absolute returns. He mentioned EBITDA growth and its composition for European investments.

Ms. Littlefield Sahlman walked through the firm's competitive landscape and described the firm's breakdown of personnel and sector focus.

Mr. McKenna discussed the firm's operating expertise and described the operating partner program. He walked through the firm's deal types and their sector-based breakdown.

Treasurer Raimondo asked about specifics on Fund VI. Ms. Sahlman and Mr. McKenna walked through metrics.

Treasurer Raimondo asked about the realization on investments and their expected time horizon. Ms. Sahlman referenced the presentation for benchmarking, current investment performance and overall positive outlook on performance of open funds.

Mr. Goodreau asked about investment overlap between funds VI and VII. Ms. Sahlman stated the COO decides fund allocation and that it is a technical process.

Treasurer Raimondo asked about distributions paid in and cash multiples. Ms. Sahlman and Mr. McKenna explained the funds' leverage and entry price points.

Ms. Littlefield Sahlman and Mr. McKenna left the room.

Treasurer Raimondo asked Mr. Lynch how he decided the amount for investment to be granted to Advent International. Mr. Lynch responded by noting the \$150 million that will be committed to private equity, with the intention of six to seven investments, thus the roughly \$20 million for each LP.

On a motion by Mr. Costello and seconded by Ms. Booth Gallogly, it was unanimously

VOTED: to commit \$20 million to Advent International, for investment in GPE VII predicated on satisfactory completion of all due diligence. Mr. Giudici was not present for the vote.

IV. Pension Consulting Alliance—Fixed Income Presentation

Mr. Emkin updated the board about the current and forecasted economic landscape. Mr. Emkin and other investment collogues do not believe inflation will fall below 2.3% anytime in the foreseeable future, a challenge for the 7.5% annual return projection.

He made four proposals: 1) fixed income in portfolio should match up with the role of the asset, 2) inflation sensitive securities should be added to the real return portfolio, 3) inflation linked equity assets to the real return portfolio, 4) and there should be a modest reduction in growth equity.

Mr. Kenneth Goodreau explained some of these changes are simply a reassignment of bucketing in terms of asset allocation.

Mr. Emkin said these changes would significantly reduce interest rate risk, helping the pension fund to achieve a goal of CPI + 4%, whereas the current portfolio is lucky to achieve CPI + 50bp.

He highlighted the inclusion of MLPs in the portfolio for active management and inflation hedging. He stressed returns will be smoothed and yield will most likely increase looking ahead.

Ms. Booth Gallogly asked how these changes might affect fees. Both Mr. Goodreau and Mr. Emkin explained there will be no significant change in fees.

On a motion by Mr. Reilly and seconded by Ms. Booth Gallogly, it was unanimously

VOTED: To accept the changes in portfolio composition and asset allocation on page 4 of PCA's presentation.

V. Nautic Partners Presentation

Mr. Gorgi stated that the goal for investments is a 2.5x growth in invested capital. Mr. Buonanno described the existing relationship between ERSRI and Nautic Partners given its investments in funds V and VI. He then gave an update on the investment themes in funds V and VI.

Treasurer Raimondo asked about closing dates and distributions. Mr. Buonanino explained Nautic is putting the LPs first and distributing all of their capital before any MP distribution. Ms. Booth Gallogly asked about duration, and Mr. Hillinksi explained, if IRR is increasing with time, it is apparent that there was some value to be unlocked.

On a motion by Mr. Fay and seconded by Mr. Reilly, it was unanimously
VOTED: to commit \$20 million to Nautic Partners VII, predicated on satisfactory completion of all due diligence.

VI. CIO Report

Mr. Goodreau reported he and his team are reviewing RFP responses and they have met with all four respondents. Mr. Goodreau added the contract with State Street needs to be extended for price protection, even while considering other options.

Ms. Paula McNamara asked about the other vendors under consideration. Mr. Goodreau responded that the other vendors are JPMorgan, Northern Trust Company and Bank New York Mellon.

Mr. Goodreau stressed each proposal must be properly considered relative to the others, to compare apples to apples. Treasurer Raimondo concluded her staff needs more time to make sure comparison is done properly.

On a motion by Mr. Costello and seconded by Mr. Fay, it was unanimously
VOTED: to extend the existing contract with State Street.

IX. Legal Counsel Report

There was no legal update.

XII. Adjournment

There being no other business to come before the Board, on a motion by Mr. Costello and seconded by Ms. Booth Gallogly the meeting adjourned at 11:00 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer